



## August 2005 Finance Report

### Information Technology Investment Board Finance and Audit Committee Meeting August 10, 2005

This month's finance report provides information on the following topics:

- FY 2005 year-end update
- Rates for new and shared services
- Savings methodology update
- VITA Initiatives Financial Benefits Report

#### FY 2005 Year-end Update

June financial activity exceeded expectations, resulting in a positive cash balance in internal service funds slightly in excess of \$17 million allowing an early pay off of the \$1 million Treasury loan. VITA also produced a special year-end customer bill on June 23 at the customers' request. VITA provided a year special year-end bill at the customers' request for FY 2004 also.

VITA continues to work on closing out fiscal year 2005 completing financial statements, supporting information and statistics in accordance with the State Comptroller's guidance. Table A below provides a summary of all funds as recorded on the state financial records compared to the final FY 2005 estimates approved by the Board and the FY 2006 budget approved by the Board at its June 2005 meeting. Complete financial reports will be provided once the books are closed for FY 2005, now estimated for late August, including details by fund. Final financial statements will differ from the revenues and expenses reported in Table A due to adjustments for accruals and the annual statewide audit.

Cash balances remain positive for July. Detailed information will be provided at the Committee meeting.

**Table A**  
**Fiscal Year 2005 – Fiscal Year 2006 Funding Summary**  
**All Funds**

	<i>FY 2005 Final Budget</i>	<i>FY 2005 Activity per State Comptroller's Trial Balance (CARS)</i>	<i>FY 2006 Approved Budget</i>
<b>Operating Revenues, incl transfers in</b>	<b>\$263,520,186</b>	<b>\$249,637,529</b>	<b>\$249,176,912</b>
<b>Expenses, incl transfers out</b>	<b><u>267,286,832</u></b>	<b><u>248,057,042</u></b>	<b><u>248,458,356</u></b>
<b>Net Change</b>	<b>(3,766,646)</b>	<b>1,580,487</b>	<b>718,556</b>
<b>Retained Earnings, July 1</b>	<b><u>45,267,229</u></b>	<b><u>\$41,500,583</u></b>	<b><u>41,500,583</u></b>
<b>Ending Retained Earnings</b>	<b><u>\$41,500,583</u></b>	<b><u>43,081,070</u></b>	<b><u>\$42,219,139</u></b>

## Rates for New and Shared Services

### NEW SHARED SERVICES AND MANDATED GOVERNANCE SERVICES RATES

Recent activity includes the development of proposals for shared services, security and mandated governance.

*Shared service rates*—The IT infrastructure operations of 90 state agencies were successfully integrated into VITA during calendar year 2004. VITA assumed responsibility for staff, contracts, procurements, maintenance, etc. Establishment of a direct bill funding mechanism enabled VITA to pay all associated expenses and obtain reimbursement from the affected agencies, with an administrative charge of 5.52% added.

This temporary arrangement was one that the ITIB and VITA leadership always intended to replace with a shared services rate structure as soon as possible. Several months ago, staff began developing rates to provide a bridge between direct billing and complete assimilation of transitioned agency staffs into VITA; until system-wide hardware, software, and service standards are mandated, full shared services rates cannot be affected.

Interaction with users was a key component in drafting the shared services rates proposal. The rate structure and its rationale were thoroughly reviewed and commented on by VITA staff and customers, including direct providers of desktop, server, and network services as well as customer agency IT and financial managers, throughout the development process. Customers recently responded to surveys identifying their anticipated requirements for these services. Using their input, VITA Finance staff analyzed the financial impact, compared to the current direct bill charges, of the proposed rates on each customer agency.

The financial impact analysis revealed that a number of agencies would likely experience significant increases or decreases in their IT infrastructure costs upon implementation of the proposed rates. These findings led to a reconsideration of the process and its timing. VITA management decided accordingly to defer its planned shared services rate development and subsequent submission to JLARC this month. In addition, an uncertain but critical variable

is the outcome of ongoing evaluations of PPEA vendor proposals--they are expected to affect both service delivery and payment practices, if partnering with the private sector is determined to be in the best interests of the Commonwealth.

*Mandated governance rates*—During the FY 2005 update to the state's 2004-06 biennial budget, both the Governor and General Assembly members offered general fund amendments to address (1) unfunded Code mandates in the areas of project management and IT security and (2) findings of the APA and JLARC directing VITA to improve its performance in meeting legislative directives related to enterprise architecture, project management, and incident management, among others.

These general fund amendments were not considered favorably. Legislators accepted JLARC's assertion at a January 2005 Senate Finance Committee subcommittee meeting that internal service funds are the only appropriate source for budgeting VITA's expenses for these statewide governance activities. Accordingly, VITA is developing rates to fully support mandates for project management and IT security. This rate proposal is on track to provide information to agencies to use in developing their FY 2006 – 2008 biennial budget submission but will likely not be presented to JLARC for approval before October 2005.

#### Change to the JLARC Rate Approval Process

On July 11, 2005, JLARC approved a motion to delegate to its Internal Service Fund Subcommittee the approval of certain internal service fund rates for VITA, specifically those shared rates related to direct billed goods and services. The Commission's delegation is intended to ensure that VITA has the flexibility to implement those rates in a timely manner. If necessary, the Subcommittee will meet twice a year, in May and November, to consider pending requests for new services. However, VITA may request a special meeting of the Subcommittee at any time to consider rates for new services that offer a compelling savings or operational need for the service.

## **Savings Methodology Update**

The ITIB approved VITA's savings initiatives benefits methodology at its June 2005 meeting for submission to the Secretary of Finance for approval. We are awaiting the Secretary's approval at this time.

## **VITA Initiatives Financial Benefits Report**

VITA IT initiatives are projected to produce significant financial benefits (both cost savings and cost avoidances) to the Commonwealth and to customer localities. A list, with estimated benefits if available, is shown in Table B. Final FY 2005 activity will be posted in the fall, pending receipt of year-end data. We expect FY 2005 savings will increase over our current estimate, and exceed the original estimate, in the area of IT procurement savings, but do not have enough data to provide an accurate projection at this time.

**Table B**  
**IT Savings Initiatives (\$000)**

	FY04	FY05	FY06	FY04-FY06 Cumulative
Projected Savings	\$15,858	\$30,023	\$31,878	\$77,759
Projected Avoidance	875	13,455	17,395	\$31,725
<b>Total</b>	<b>\$16,733</b>	<b>\$43,478</b>	<b>\$49,273</b>	<b>\$109,484</b>